U S PHYSICAL THERAPY INC /NV
Form 8-K
February 04, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 4, 2004

U.S. PHYSICAL THERAPY, INC.
(Exact name of registrant as specified in its charter)

Nevada	76-0364866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1300 West Sam Houston Parkway South, Suite 300 Houston, Texas	77042
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 297-7000

Item 5. Other Events.

On February 4, 2004, U.S. Physical Therapy, Inc. (the "Company") a national operator of physical and occupational therapy outpatient clinics, issued a press release announcing that the Company will present at the UBS Warburg Global Healthcare Services Conference on Wednesday, February 4, 2004.

Roy Spradlin, Chairman, President and CEO, and Larry McAfee, CFO, will address the conference taking place at The Plaza Hotel in New York City. A copy of the presentation may be accessed on the Company's website www.usph.com. A copy of the press release is attached hereto as Exhibit 99.1.

Exhibits	Description of Exhibits
99.1	Press release dated February 4, 2004.*

* Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

U.S. PHYSICAL THERAPY, INC.

Dated: February 4, 2004

By: /s/ LAWRANCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer
(duly authorized officer and principal financial
and accounting officer)

EXHIBIT	DESCRIPTION OF EXHIBIT
99.1	Press release dated February 4, 2004.*

* Furnished herewith

; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">

18529 NE 184 th Street

54,216

0.003%

Woodinville, WA 98072

Shanna Gerrard

131 Wildwood Dr

5,000

0.000%

Prescott AZ 86305

Martin Nielsen

12111 Hilltop Drive

11,589

0.000%

Los Altos, CA 94024

John Kroon

PO Box 3846

144

0.000%

Rancho Santa Fe, CA 92067

Directors and Officers as a Group (4 persons)

70,949

0.003%

Panache Capital

303 Merrick Road Suite 504

Lynbrook, NY 11563

118,720,000

5.389%

Name of Series D Stockholder	Number of Shares of Common Stock Held	Number of Shares of Series D Preferred held(1)	Number of Votes held by such Series D Stockholder	Number of Votes	Percentage of the Voting Equity
Lloyd Spencer	54,216	60,000	x 100,000	6,000,054,216	50.3%
Shanna Gerrard	5,000	20,000	x 100,000	2,000,005,000	16.8%
Jared Robert	9,536,197	20,000	x 100,000	2,009,536,197	16.8%

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(1) Each share of Series D Convertible Preferred Stock ("Series D Preferred") has the equivalent of one hundred thousand (100,000) votes of common stock. Currently, there are 3 holders of Series D Preferred Stock, namely Lloyd Spencer (60,000 shares), Shanna Gerrard (20,000 shares) and Jared Robert (20,000 shares) (together, the "Series D Stockholders"), collectively holding 100,000 shares of Series D Preferred, resulting in the Series D Stockholders holding in the aggregate a majority of the total voting power of all issued and outstanding voting shares of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

No director, executive officer or nominee for election as a director of our company, and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transaction in which the amount involved exceeds $60,000 except as set forth below.

During October 2007, several current directors and officers invested $35,000 in Series C preferred stock, which is described in Note 12 in the notes to financial statements. In April 2008, all of the Series C preferred shareholders converted their investments into CoroWare common stock.

We also entered into short-term debt obligations other than in the ordinary course of business. The following table sets forth the pertinent information relating to the obligations:

Lender	Interest Rate		Original Amount of Loan		Outstanding Balance at December 31, 2012	Date of Loan	Due Date
Rick Wynns	5%	$	27,500	$	-	Jul 22, 2005	Dec 31, 2007
Rick Wynns	21%	$	25,000	$	25,000	Jul 27, 2010	Jan 23, 2011
Amy Spencer	18%	$	50,000	$	50,000	Jul 3, 2008	Dec 20, 2008
Raphael Cariou	18%	$	87,900	$	-	Jul 3–Dec 19, 2008	Various dates thru April, 2011
John Kroon	18%	$	10,000	$	10,000	Mar 17, 2010	Sep 13, 2010
Lloyd Spencer	18%	$	223,629	$	117,612	Feb 2 – Aug 14, 2009	Various dates thru Mar 16, 2010

On July 22, 2005 CoroWare borrowed $30,000 from a beneficial shareholder and then-director, Rick Wynns, and entered into a short term note requiring interest at the annual rate of 5%, maturing in six months, and principal and accrued interest are convertible into CoroWare common stock at $0.15 per share. A payment of $2,500 was made during the 4th quarter of 2006. The due date of the note was extended to December 31, 2008. To date there have been no conversions. In addition in October 2005 we entered into a second short-term obligation with Mr. Wynns for $30,000. The note bears interest at 10% and matured in April 2006. A $20,000 principal payment was made on this note in May 2006. The due date of the note was extended to December 31, 2007. In October 2005, we entered into a third short-term obligation with Mr. Wynns for $30,000. This note bears interest at 10% and also matured in April 2006. This note was also extended through December 31, 2007. During the 4 th quarter of 2010, Mr. Wynns sold $40,000 of these notes to an outside third party and then made an additional loan to the Company of $25,000 bearing interest at 21% and maturing January 23, 2011. That note is currently in default.

In July 2008 CTI entered into a short-term debt obligation totaling $50,000 with Amy Spencer. The entire balance of the loan plus accrued interest at 1.5% per month was due on December 20, 2008. The note was not paid at maturity and is currently accruing late fees of 0.5% per month in addition to the interest.

During 2008, CoroWare borrowed an aggregate $62,900 from Raphael Cariou, a shareholder and employee of CoroWare. The notes bear interest at 18% and mature on various dates beginning December 20, 2008 and running through June 30, 2009. Cash payments of $6,200 were made during 2010. All of the notes are currently in default and accruing late fees of 0.5% per month in addition to the interest.

During 2009, CoroWare borrowed an aggregate $223,629 from Lloyd Spencer, our CEO and a shareholder. The notes bear interest at 18% and mature on various dates from July 2009 through March 2010. During 2010, the Company made cash payments of $40,018 towards these loans and issued 10,000,000 shares of stock valued at $50,000. All of the remaining notes are currently in default and accruing late fees of 0.5% per month in addition to the interest.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees

The aggregate fees billed for professional services rendered by Lake & Associates CPAs LLC for the audit of the Registrant's annual financial statements and review of the financial statements included in the Registrant's Forms 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2012 and 2011, were $50,700 and $70,848, respectively.

(2) Tax Fees

The aggregate fees billed for professional services rendered by Lake & Associates CPAs LLC for the preparation of the Registrant's tax returns, including tax planning for fiscal years 2012 and 2011 were $0 and $0, respectively.

(3) All Other Fees

No other fees were paid to Lake & Associates CPAs LLC for fiscal years 2012 and 2011.

(4) Audit Committee Policies and Procedures

The Registrant does have an audit committee. The Board of Directors of the Registrant approved all of the services rendered to the Registrant by Lake & Associates for fiscal years 2012 and 2011.

(5) Audit Work Attributed to Persons Other Lake & Associates CPAs LLC

Not applicable.

PART IV

ITEM 15. EXHIBITS

Exhibit	Description
2.4	Agreement and Plan of Merger among the Company, RWT Acquisition, Inc and Robotic Workspace Technologies, Inc. dated July 21, 2004. (5)
3.1	Articles of Incorporation (2)
3.1.1	Amendment to Articles of Incorporation as of January 3, 2012
3.2	Bylaws (2)
4.1	Certificate of Designation of Series D Convertible Preferred Stock dated November 10, 2011 ( )
4.2	Certificate of Designation of Series E Convertible Preferred Stock dated March 9, 2012 ( )
10.17	Registration Rights Agreement with Cornell Capital Partners, LP dated June 14, 2005 (10)
10.18	Escrow Agreement with Cornell Capital Partners, LP and David Gonzalez, Esq. dated June 14, 2005 (10)
10.19	Promissory Note for $300,000 issued to Cornell Capital Partners, LP dated June 14, 2005 (10)
10.21	Securities Purchase Agreement with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.22	Registration Rights with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.23	Convertible Debenture issued to Cornell Capital Partners, LP dated October 7, 2005 (11)
10.24	Security Agreement with Cornell Capital Partners, LP dated October 7, 2005 (11)
10.25	Escrow Agreement with David Gonzalez and Cornell Capital Partners, LP dated October 7, 2005 (11)

10.28	Stock Option Plan adopted on April 12, 2005 and amended on April 12, 2006 (14)
10.29	Amended and Restated Stock Option Plan amended on July 24, 2006 (15)
10.30	Convertible Debenture dated July 21, 2006 (16)
10.31	Form of $0.05 Warrant (16)
10.32	Form of $0.10 Warrant (16)
10.33	Form of $0.025 Warrant (16)
10.34	Form of $0.065 Warrant (16)
10.35	Form of $0.075 Warrant (16)
10.36	Securities Purchase Agreement dated July 21, 2006 between the Company and Cornell (16)
10.37	Investor Registration Rights Agreement dated July 21, 2006 between the Company and Cornell (16)
10.38	Security Agreement dated July 21, 2006 by and between the Company and Cornell (16)
10.39	Subsidiary Security Agreement dated July 21, 2006 by and between CoroWare Technologies, Inc. and Cornell (16)
10.41	Asset Purchase Agreement by and among Innova Holdings, Inc., CoroWare Technologies Inc. and CoroWare, Inc. dated May 12, 2006. (18)
10.42	Form of Executive Employment Agreement. (18)

10.44	Conversion Agreement dated as of October 19, 2007, by and between Innova Robotics and Automation, Inc. and Jerry Horne (22)
10.45	Securities Purchase Agreement, dated October 25 t , 2007 (22)
10.46	Secured Convertible Debenture, dated October 25 th , 2007 (22)
10.47	Redemption Warrant, dated October 25 th , 2007 (22)
10.48	Registration Rights Agreement, dated October 25 th , 2007 (22)
10.49	Security Agreement, dated October 25 th , 2007 (22)
10.50	Robotic Workspace Technologies, Inc. Patent and Trademark Agreement, dated October 25 th , 2007 (22)
10.51	Form of Series C Convertible Preferred Stock Subscription Agreement, dated October 13, 2007 (22)
10.52	Form of Warrant, dated October 13, 2007 (22)
10.53	Certificate of Designation (22)
10.54	Employment Termination and Retirement Agreement, dated December 18, 2007 (21)
10.55	Consulting Agreement, dated December 18, 2007 (21)
10.56	Securities Purchase Agreement, dated March 20 th , 2008 (23)
10.57	Secured Convertible Debenture, dated March 20 th , 2008 (23)
10.58	Warrant, dated March 20 th , 2008 (23)
10.59	Registration Rights Agreement, dated March 20 th , 2008 (23)
10.60	Security Agreement, dated November 2 nd , 2007 (23)
10.61	Patent and Trademark Security Agreement, dated October 29 th , 2007 (23)
10.62	Amendment Agreement, dated March 20 th , 2008 (23)
10.63	Amendment to Articles of Incorporation dated April 23, 2008

10.64	2008 Incentive Stock Plan
10.65	Amended 2008 Incentive Stock Plan
10.66	Amendment to Articles of Incorporation dated January 23, 2009
10.67	Joint Venture Agreement
14.1	Code of Ethics
21.1	List of Subsidiaries *
31	Rule 13(a) -14(a)/15d-14(a) Certification of Principal Executive Officer and Principal Financial Officer*
32	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer*

* Filed herewith

(1) Incorporated by reference to the Form 8-K filed on February 4, 2003.

(2) Incorporated by reference to the Form SB-2 filed on August 7, 2001.

(3) Incorporated by reference to the Form 10-KSB filed on April 24, 2003.

(4) Incorporated by reference to the Form 8-K filed on May 13, 2003.

(5) Incorporated by reference to the Form 8-K filed on August 8, 2004.

(6) Incorporated by reference to the Form 14C filed on June 30, 2004.

(7) Incorporated by reference to the Form 8-K filed on September 28, 2004.

(8) Incorporated by reference to the Form 8-K filed on January 11, 2005.

(9) Incorporated by reference to the Form 10-KSB filed on April 19, 2005.

(10) Incorporated by reference to the Form 8-K filed on June 16, 2005.

(11) Incorporated by reference to the Form 8-K filed on October 19, 2006.

(12) Incorporated by reference to the Form 8-K filed on July 6, 2005.

(13) Incorporated by reference to the Form 8-K filed on January 27, 2006.

(14) Incorporated by reference to the Form 10-KSB filed on April 19, 2006.

(15) Incorporated by reference to Amendment 1 to the Schedule 14A filed on July 31, 2006.

(16) Incorporated by reference to the Form 8-K filed on July 25, 2006.

(17) Incorporated by reference to the Form 8-K filed on June 22, 2006.

(18) Incorporated by reference to the Form 8-K filed on May 22, 2006.

(19) Incorporated by reference to the Form 8-K filed on May 3, 2006.

(20) Incorporated by reference to the Registration Statement on Form SB-2 filed on November 9, 2007.

(21) Incorporated by reference to the Form 8-K filed on December 26, 2007.

(22) Incorporated by reference to the Registration Statement on Form S-1 filed on February 13, 2008

(23) Incorporated by reference to the Form 8-K filed on March 26, 2008.

(24) Incorporated by reference to the Form 10-KSB filed April 15, 2008

(25) Incorporated by reference to the Form 8-K filed on May 14, 2008.

(26) Incorporated by reference to the Form 10-Q filed on May 20, 2008.

(27) Incorporated by reference to the Form S-8 filed on May 29, 2008.

(28) Incorporated by reference to the Form S-8 filed on July 30, 2008.

(29) Incorporated by reference to the Form 10-Q filed on August 19, 2008.

(30) Incorporated by reference to the Form 8-K filed on November 19, 2008.

(31) Incorporated by reference to the Form 10-Q filed on November 19, 2008.

(32) Incorporated by reference to the Form 8-K filed on March 18, 2009.

(33) Incorporated by reference to the Form 8-K filed on April 7, 2009.

(34) Incorporated by reference to the Form 5 filed on May 12, 2009.

(35) Incorporated by reference to the Form 10-K filed on May 18, 2009.

(36) Incorporated by reference to the Form 10Q filed on May 20, 2009.

(37) Incorporated by reference to the Form 8-K filed on August 7, 2009.

(38) Incorporated by reference to the Form 10Q filed on August 19, 2009.

(39) Incorporated by reference to the Form 8-K filed on August 28, 2009.

(40) Incorporated by reference to the Form 8-K filed on October 22, 2009.

(41) Incorporated by reference to the Form 10Q filed on November 23, 2009.

(42) Incorporated by reference to the Form S-8 filed on December 16, 2009.

(43) Incorporated by reference to the Form 8-K filed on January 10, 2010.

(44) Incorporated by reference to the Form S-8 filed on March 29, 2010.

(45) Incorporated by reference to the Form 10K filed on May 12, 2010.

(46) Incorporated by reference to the Form 10Q filed on May 24, 2010.

(47) Incorporated by reference to the Form 10Q filed on August 23, 2010.

(48) Incorporated by reference to the Form 8K filed on September 17, 2010.

(49) Incorporated by reference to the Form 10Q filed on November 22, 2010.

(50) Incorporated by reference to the Form SC 13G filed on December 2, 2010.

(51) Incorporated by reference to the Form S-8 filed on December 21, 2010.

(52) Incorporated by reference to the Form 10K/A filed on January 5, 2011.

(53) Incorporated by reference to the Form S-8 POS filed on February 22, 2011.

(54) Incorporated by reference to the Form 8K filed on March 16, 2011.

(55) Incorporated by reference to the Form NT 10-K filed on March 30, 2011.

(56) Incorporated by reference to the Form 8K filed on April 14, 2011.

(57) Incorporated by reference to the Form 10K filed on April 15, 2011.

(58) Incorporated by reference to the Form NT 10-Q filed on May 16, 2011.

(59) Incorporated by reference to the Form 10-Q filed on June 6, 2011.

(60) Incorporated by reference to the Form Pre 14C filed on June 24, 2011.

(61) Incorporated by reference to the Form Def 14A filed on July 29, 2011.

(62) Incorporated by reference to the Form NT 10-Q filed on August 15, 2011.

(63) Incorporated by reference to the Form Defr 14A filed on August 18, 2011.

(64) Incorporated by reference to the Form 10-Q filed on August 19, 2011.

(65) Incorporated by reference to the Form 10-Q/A filed on September 22, 2011.

(66) Incorporated by reference to the Form 8K filed on September 23, 2011.

(67) Incorporated by reference to the Form 3 filed on October 3, 2011.

(68) Incorporated by reference to the Form 4 filed on October 3, 2011.

(69) Incorporated by reference to the Form 8K filed on November 9, 2011.

(70) Incorporated by reference to the Form 8KA filed on November 14, 2011.

(71) Incorporated by reference to the Form NT 10-Q filed on November 14, 2011.

(72) Incorporated by reference to the Form 8K filed on November 16, 2011.

(73) Incorporated by reference to the Form Pre 14C filed on November 16, 2011.

(74) Incorporated by reference to the Form 10-Q filed on November 21, 2011.

(78) Incorporated by reference to the Form 8K/A filed December 12, 2011.

(79) Incorporated by reference to the Form 8K/A filed on December 12, 2011.

(80) Incorporated by reference to the Form Pre 14C filed on December 12, 2011.

(81) Incorporated by reference to the Form Def 14C filed on December 12, 2011

(82) Incorporated by reference to the Form 8K/A filed on December 13, 2011.

(83) Incorporated by reference to the Form S-8 filed on March 7, 2012.

(84) Incorporated by reference to the Form 8-K filed on March 7, 2012.

(85) Incorporated by reference to the Form NT-10K filed on March 30, 2012.

(86) Incorporated by reference to the Form 10K filed on April 16, 2012.

(87) Incorporated by reference to the Form 10-K/A filed on April 18, 2012.

(88) Incorporated by reference to the Form 10-K/A filed on April 25, 2012.

(89) Incorporated by reference to the Form Pre 14C filed on May 4, 2012.

(90) Incorporated by reference to the Form 10-Q filed on May 21, 2012.

(91) Incorporated by reference to the Form Pre 14C filed on June 11, 2012.

(92) Incorporated by reference to the Form Def 14C filed on June 15, 2012.

(93) Incorporated by reference to the Form 8-K filed on July 11, 2012.

(94) Incorporated by reference to the Form NT 10-Q filed on August 14, 2012.

(95) Incorporated by reference to the Form 10-Q filed on August 20, 2012.

(96) Incorporated by reference to the Form S-8 filed on August 23, 2012.

(97) Incorporated by reference to the Form 3 filed on October 1, 2012.

(98) Incorporated by reference to the Form 8-K filed on October 3, 2012.

(99) Incorporated by reference to the Form S-8 filed on October 30, 2012.

(100) Incorporated by reference to the Form NT 10-Q filed on November 13, 2012.

(101) Incorporated by reference to the Form 10-Q filed on November 19, 2012.

(102) Incorporated by reference to the Form S-8 filed on January 28, 2013.

(103) Incorporated by reference to the Form 10-Q/A filed on January 31, 2013.

(104) Incorporated by reference to the Form 10-Q/A filed on January 31, 2013.

(105) Incorporated by reference to the Form 10-K/A filed on January 31, 2013.

(106) Incorporated by reference to the Form Pre 14C filed on February 28, 2013

(107) Incorporated by reference to the Form 5 filed on March 5, 2013.

(108) Incorporated by reference to the Form 4 filed on March 5, 2013.

(109) Incorporated by reference to the Form Def 14C filed on March 25, 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 15, 2013

COROWARE, INC.

By: /s/ Lloyd T. Spencer
Lloyd T. Spencer
Chief Executive Officer and
Interim Chief Financial Officer
(Principal Executive Officer and
Principal Accounting and Financial
Officer)

In accordance with the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Lloyd T. Spencer Lloyd T. Spencer	Chief Executive Officer and Interim Chief Financial Officer, Director (Principal Executive Officer and Principal Accounting and Financial Officer),	May 20, 2013
/s/ John Kroon John Kroon	Chairman of the Board of Directors	May 20, 2013
/s/ Martin Nielson Martin Nielson	Director	May 20, 2013

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
CoroWare, Inc.
Kirkland, WA 98033

We have audited the accompanying consolidated balance sheet of CoroWare, Inc. (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CoroWare, Inc. as of December 31, 202 and 2011, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations, and its need for additional financing in order to fund its business operations raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Lake & Associates CPA's LLC
Lake & Associates, CPA's LLC
Schaumburg, Illinois

May 22, 2013

1905 Wright Boulevard
Schaumburg, IL 60193

Phone: 847-524-0800
Fax: 847-524-1655

COROWARE, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

ASSETS

	2012	2011
Current assets:		
Cash	$ 2,754	$ 522
Accounts receivable, net	176,123	129,438
Inventory	15,267	3,783
Other current assets	21,109	7,518
Total current assets	215,253	141,261
Property and equipment, net	15,454	24,333
Other assets, net	12,873	6,927
TOTAL ASSETS	$ 243,579	$ 172,521
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Lines of credit	$ 121,369	$ 125,456
Obligations collateralized by receivables	177,455	107,730
Accounts payable and accrued expenses	5,155,860	4,442,906
Accrued expenses, related parties	183,929	111,466
Notes payable	232,332	202,232
Notes payable, related parties	202,612	208,913
Derivative liability	77,655,809	2,798,366
Current maturities of convertible debt, net of discount	2,258,830	2,206,247
Redeemable preferred stock, Series B, $.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	70,961	106,443
Redeemable preferred stock, Series D, $.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	34,602	75,901
Redeemable preferred stock, Series E, $.001 par value, 1,000,000 shares authorized, 50,000 and -0- shares issued and outstanding, respectively	50	-
Small business administration loan	980,450	980,450
Total current liabilities	87,074,259	11,366,110
Convertible debentures, net of current maturities	221,805	149,107
Total liabilities	87,296,064	11,515,217
Commitments		
Stockholders' deficit:		
Common stock, $.0001 par value, 3,000,000,000 shares authorized, 306,542,857 and 3,980,589 shares issued and outstanding, respectively	30,654	398
Additional paid-in capital	16,537,112	16,159,171
Non controlling interest	39,298	-
Accumulated deficit	(103,623,848)	(27,466,565)
Treasury stock	(35,700)	(35,700)
Total stockholders' deficit	(87,052,485)	(11,342,696)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 243,579	$ 172,521

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Revenues	$1,309,251	$1,799,352
Cost of revenues	846,885	1,214,737
Gross profit	462,366	584,615
Operating expenses:		
General and administration	780,731	863,299
Sales and marketing	291,961	314,195
Research and development	58,948	122,221
Depreciation and amortization	12,000	21,765
Total operating expenses	1,143,640	1,321,480
Loss from operations before other income (expense)	(681,274)	(736,865)
Other income (expense):		
Interest expense	(623,084)	(804,893)
Derivative income (expense)	(74,941,525)	(485,772)
Gain (loss) on debt redemptions	(13,172)	(76,583)
Gain (Loss) on extinguishment of debt	71,069	75,517
Total other income (expense)	(75,506,712)	(1,291,731)
Loss before non controlling interest	(76,187,986)	(2,028,596)
Net loss attributable to non controlling interest	30,702	-
Net loss	$(76,157,283)	$(2,028,596)
Net loss per share:		
Basic and diluted	$(0.49)	$(0.01)
Weighted average shares outstanding – Basic and diluted	155.261.824	215,763,830

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the Years Ended December 31, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Non Controlling Interest	Accumulated Deficit	Treasury Stock	Total
Balances, December 31, 2010	442,953	$44	$ $15,618,997	-	$(25,437,969)	$(35,700)	$(9,854,628)
Common stock issued in satisfaction of payables	983,946	98	280,753	-	-	-	280,851
Common stock issued for services and compensation	5,000	1	3,299	-	-	-	3,300
Common stock issued for redemption of convertible debenture	2,181,866	218	251,847	-	-	-	252,065
Common stock issued for notes payable	366,824	37	78,567	-	-	-	78,604
Transfer preferred stock to liability	-	-	(74,292)	-	-	-	(74,292)
Net loss	-	-	-	-	(2,028,596)	-	(2,028,596)
Balances, December 31, 2011	3,980,589	398	16,159,171	-	(27,466,565)	(35,700)	(11,342,696)
Common stock issued in satisfaction of payables	44,634,882	4,463	33,777	-	-	-	38,240
Common stock issued for services and compensation	85,787,184	8,579	69,213	-	-	-	77,792
Common stock issued for redemption of convertible debenture	134,140,001	13,414	274,951	-	-	-	288,365
Purchase of subsidiary	38,000,000	3,800	-	70,000			73,800

Fractional shares issued in reverse stock split	187	-	-	-	-	-	-
Net loss	-	-	-	(30,702)	(76,157,283)	-	(76,187,986)
Balances, December 31, 2012	306,542,857	$30,654	$16,537,112	$ 39,298	$(103,623,848)	$(35,700)	$(87,052,485)

The accompanying notes are an integral part of these consolidated financial statements.

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COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (76,187,986)	$ (2,028,596)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	12,000	21,765
Stock issued for services and compensation	149,744	3,300
Amortization of debt discount	166,618	297,209
Amortization of deferred financing costs	59,490	6,805
Derivative (income) loss	74,941,525	485,772
(Gain) loss on debt redemptions	(57,897)	(75,516)
Changes in operating assets and liabilities:		
Accounts receivable, net	(46,685)	59,550
Inventory	(11,484)	1,035
Other assets	(2,191)	2,155
Accounts payable and accrued expenses	792,971	1,161,640
Accrued expenses, related parties	72,461	(6,387)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(111,433)	(71,268)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(3,121)	(3,626)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,121)	(3,626)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from obligations collateralized by receivables	69,725	5,341
Net proceeds from lines of credit	(4,087)	465
Proceeds from convertible debt financings	17,350	80,000
Payments on long-term debt	-	(2,000)
Payments on notes payable	(1,500)	(8,692)
Payments on notes payable, related parties	(6,301)	(14,698)
Proceeds from notes payable	31,600	15,000
Proceeds from common stock	10,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	116,787	75,416
NET CHANGE IN CASH	2,233	522
Cash, beginning of year	522	-
Cash, end of year	$ 2,755	$ 522

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2012 and 2011

	2012	2011
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
NON CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for joint venture contribution	$ 73,800	$ -
Common stock issued in satisfaction of accounts and notes payable	$ 38,240	$ 280,849
Common stock issued for redemption of convertible debentures	$ 288,365	$ 330,669

The accompanying notes are an integral part of these consolidated financial statements.

COROWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation policy:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CoroWare Technologies, Inc. (“CTI”), Innova Robotics, Inc. (“IR”), Robotic Workspace Technologies, Inc. (“RWT”), and Robotics Software Services, Inc. (“RSS”) (Herein are referred to as the “Subsidiaries”). The Company also consolidates its 51% interest in Aricon, LLC. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Nature of the Company:

CoroWare, Inc ("CoroWare" or "the Company") is a public holding company whose principal subsidiary, CoroWare Technologies, Inc. ("CTI"), has expertise in information technology consulting, mobile robotics, and affordable collaboration. Through its subsidiary, the Company delivers custom engineering services, hardware and software products, and subscription services that benefit customers in North America, Europe, Australia, Asia and the Middle East. Their customers span multiple industry sectors and comprise universities, software and hardware product development companies, and non-profit organizations. The company also maintains a Near Shore practice which is comprised of multiple subcontracting companies with whom the company maintains close working relationships. Through these relationships, the Company is able to provide services in South America.

COROWARE TECHNOLOGIES, INC.
CTI is a software professional services company with a strong focus on Information Technology integration and robotics integration, business automation solutions, and unmanned systems solutions to its customers in North America and Europe.

CTI’s expertise includes the deployment and integration of computing platforms and applications, as well as the development of unmanned vehicle software and solutions for customers in the research, commercial, and homeland security market segments. CTI shall continue to offer its high value software systems development and integration services that complement the growing trend in outsourced software development services in Asia, Latin America, and Eastern Europe.

CoroWare Technologies comprises three separately managed lines of business:

- CoroWare Business Solutions : IT and lab management; business intelligence, software architecture, design and development; content delivery; partner and program management.
- Robotics and Automation : Custom engineering such as visualization, simulation and software development; and mobile robot platforms for university, government and corporate researchers.
- Enhanced Collaboration Solution : Collaboration and conferencing products, solutions and subscription services.

The Company’s revenues are principally derived from standing contracts that include Microsoft (partner management and IT professional services), a European auto manufacturer (simulation software custom development), and other customers whose product development groups require custom software development and consulting companies. Existing contract revenues vary month by month based on the demands of the clients. The Company’s collaboration effort is in the early stages of growth and will require additional working capital to compete effectively against new entrants in this rapidly growing market.

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NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies:

Cash and cash equivalents:

Cash and cash equivalents include cash and all highly liquid financial instruments with original purchased maturities of three months or less.

Accounts receivable:

The Company's accounts receivable are exposed to credit risk. During the normal course of business, the Company extends unsecured credit to its customers with normal and traditional trade terms. Typically credit terms require payments to be made by the thirtieth day following the sale. The Company regularly evaluates and monitors the creditworthiness of each customer. The Company provides an allowance for doubtful accounts based on our continuing evaluation of its customers' credit risk and its overall collection history. At December 31, 2012 and December 31, 2011, no allowance was deemed necessary.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Major renovations, renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives which are generally five to ten years.

Intangible assets:

The Company's intangible assets, which are recorded at cost, consist primarily of the unamortized cost basis of employment contracts and customer lists. These assets were amortized on a straight line basis over the estimated useful lives ranging from 3 to 5 years and are fully amortized as of December 31, 2012.

Impairment of long-lived assets:

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of FASB ASC 360-35, Property, Plant and Equipment, Subsequent Measurement. FASB ASC 360-35 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Deferred finance costs:

Deferred finance costs are associated with the convertible debenture financings (see Note 9) and are being amortized on a straight line basis over the term of the underlying debt instrument. Upon conversion, the deferred finance cost associated with the converted amount is amortized.

Income taxes:

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized. Additionally, taxes are calculated and expensed in accordance with applicable tax code.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments:

Financial instruments, as defined in FASB ASC 825, Financial Instruments, consist of cash, accounts receivable, accounts payable, accrued expenses, notes payable, derivative financial instruments, and debt.

The Company carries cash, accounts receivable, accounts payable and accrued expenses at historical costs; their respective estimated fair values approximate carrying values due to their current nature. The Company also carries notes payable and convertible debt. The fair values of these notes payable and convertible debt instruments approximate carrying values based on the comparable market interest rates applicable to similar instruments.

Derivative financial instruments, as defined in FASB ASC 815, Derivatives and Hedging, consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. The caption Derivative Liability consists of (i) the fair values associated with derivative features embedded in the convertible debt financings and (ii) the fair values of the detachable warrants that were issued in connection with those financing arrangements.

The Company generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has entered into certain other financial instruments and contracts, such as debt financing arrangements and freestanding warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by FASB ASC 815, these instruments are required to be carried as derivative liabilities, at fair value, in its financial statements.

Share-based payments :

Stock based compensation expense is recorded in accordance with FASB ASC 718, Compensation – Stock Compensation, for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight line basis over the service period, which is the vesting period. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest. There were no options granted during the years ending December 31, 2012 and 2011.

Revenue recognition:

The Company derives its software system integration services revenue from short-duration, time and material contracts. Generally, such contracts provide for an hourly-rate and a stipulated maximum fee. Revenue is recorded only on executed arrangements as time is incurred on the project and as materials, which are insignificant to the total contract value, are expended. Revenue is not recognized in cases where customer acceptance of the work product is necessary, unless sufficient work has been performed to ascertain that the performance specifications are being met and the customer acknowledges that such performance specifications are being met. We periodically review contractual performance and estimate future performance requirements. Losses on contracts are recorded when estimable. No contractual losses were identified during the periods presented.

The Company recognizes revenue for its software and software professional services when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Product sales are recognized by us generally at the time product is shipped. Shipping and handling costs are included in cost of goods sold.

The Company accounts for arrangements that contain multiple elements in accordance with FASB ASC 605-25, Revenue Recognition, Multiple Element Arrangements. When elements such as hardware, software and consulting services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. In the absence of fair value for a delivered element, we allocate revenue first to the fair value of the underlying elements and allocate the residual revenue to the delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on future delivery of products or services or subject to customer-specified return of refund privileges. The Company recognizes revenue from the sale of manufacturer's maintenance and extended warranty contracts in accordance with FASB ASC 605-45, Revenue Recognition, Principal Agent Considerations, net of its costs of purchasing the related contracts.

The Company's collaboration revenue is comprised of both services and products. Collaboration service revenues are generated through the sale of CoroCall TM , a managed collaboration service. Our contracts provide for usage pricing or when paid for pre-paid service. The Company recognizes this revenue in the period that the services or minutes are used and prepaid. Product revenues are realized partly through the sale of Vidyo's product line, including room systems and back-end infrastructure, and partly through the sale of CoroWare collaboration products, including CoroWare Usage Reporter for Vidyo, a software package that provides usage statistics for Vidyo brand high-definition video conferencing systems, and partly through sales of accessories. Revenues for these products are recognized when the product is delivered to the customer.

Research and development:

Research and development costs relate to the development of new products, including significant improvements and refinements to existing products, and are expensed as incurred. Research and development expenses from continuing operations for the years ended December 31, 2012 and 2011 were $58,948 and $122,221 respectively.

Advertising expense:

The Company expenses advertising costs as they are incurred. Advertising expense for the years ending December 31, 2012 and 2011 were $664 and $7,400, respectively.

Concentration of Credit Risk:

Financial instruments which potentially expose the Company to concentrations of credit risk are cash and cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents in deposit accounts with high quality, credit-worthy financial institutions.

At December 31, 2012 and 2011, the Company's revenues and receivables were comprised of the following customer concentrations:

	2012		2011	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	59%	24%	23%	24%
Customer 2	-%	-%	51%	24%
Customer 3	-%	-%	-%	-%

Basic and diluted loss per share:

The Company is required to provide basic and dilutive earnings (loss) per common share information. The basic net loss per common share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding.

Diluted net loss per common share is computed by dividing the net loss applicable to common stockholders, adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the years ended December 2012 and 2011, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

NOTE 1 - NATURE OF THE COMPANY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividend Policy

The Company has never declared or paid any cash dividends on its common stock. The Company anticipates that any earnings will be retained for development and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. Additionally, as of December 31, 2012 and 2011 the Company has issued and has outstanding shares of Series B Preferred Stock which are entitled, prior to the declaration of any dividends on common stock, to earn a 5% dividend, payable in either cash or common stock of the Company. The Board of Directors has sole discretion to declare dividends based on the Company's financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. At December 31, 2012 and 2011, there were cumulative undeclared dividends to Preferred Series B shareholders of $47,900 and $39,917, respectively, the obligation for which is contingent on declaration by the board of directors. At December 31, 2012 and 2011, there were accrued unpaid dividends of $15,969, respectively. This balance is part of accounts payable and accrued expenses.

Recent Accounting Pronouncements:

Management does not expect the impact of any other recently issued accounting pronouncements to have a material impact on its financial condition or results of operations.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the more significant estimates included in the Company’s financial statements are the following:

- estimating future bad debts on accounts receivable that are carried at net realizable values;
- estimating the fair value of its financial instruments that are required to be carried at fair value; and
- estimating the recoverability of its long-lived assets.

The Company uses all available information and appropriate techniques to develop its estimates. However, actual results could differ from its estimates.

NOTE 2 - FINANCIAL CONDITION AND GOING CONCERN

The Company has incurred losses for the years ended December 31, 2012 and 2011 of $76,157,283 and $2,028,596, respectively. Because of these losses and the Company's working capital deficit, the Company will require additional working capital to develop its business operations.

The Company intends to raise additional working capital through the use of private placements, public offerings and/or bank financing.

There are no assurances that the Company will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placements, public offerings and/or bank financing necessary to support the Company's working capital requirements. To the extent that funds generated from operations, any private placements, public offerings and/or bank financing are insufficient, the

Company will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to the Company.

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NOTE 2 - FINANCIAL CONDITION AND GOING CONCERN (Continued)

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – ACCOUNTS RECEIVABLE FACTORING

On March 21, 2010, the Company established a $200,000 factoring line with an asset-based lender, CapeFirst Funding, LLC ("Capefirst") that is secured by accounts receivable that the Lender may accept and purchase from the Company. The agreement calls for Capefirst to advance up to 80% of the net face amount of each assigned account or up to 50% of eligible assigned purchase orders. The agreement calls for a maximum facility amount of $200,000 with a purchase fee of 2% of the net face amount of each assigned account and a collection fee of 0.1% compounded daily. In the event of a dispute or in the event of fraud, misrepresentation, willful misconduct or negligence on the part of the Company, Capefirst may require the Company to immediately repurchase the assigned accounts at a purchase price that includes the amount of the assigned account plus the discount fee, interest and collection fee and may include a processing fee of 10%. The combined balance due to factors as of December 31, 2012 and 2011 was $177,455 and $107,730. Factor expense charged to operations for the years ended December 31, 2012 and 2011 amounted to $38,157 and $44,155, respectively.

We have adopted the FASB's amended authoritative guidance which was issued in June 2009 and which became effective January 1, 2010 as it relates to distinguishing between transfers of financial assets that are sales from transfers that are secured borrowings. Under this new guidance as adopted by the Company effective January 1, 2010, the reporting of the sale of accounts receivable is treated as a secured borrowing rather than as a sale. As a result, affected accounts receivable are reported under Current Assets within the Company's balance sheet as "Trade receivables" subject to reserves for doubtful accounts, returns and other allowances. Similarly, the net liability owing to Capefirst appears as "Obligations collateralized by receivables" within the Current Liabilities section of the Company's balance sheet. Net proceeds received from the sale of accounts receivable appear as cash provided or used by financing activities within the Company's Consolidated Statements of Cash Flows. Early adoption of this amended guidance was not permitted. Under the authoritative guidance in effect prior to the amended guidance noted above, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2012 and 2011:

	2012	2011
Computer equipment	$ 85,381	$ 82,260
Furniture and fixtures	7,862	7,862
	93,243	90,122
Less: accumulated depreciation	(77,789)	(65,789)
	$ 15,454	$ 24,333

Depreciation expense for the years ended December 31, 2012 and 2011 was $12,000 and $10,684, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets, which arose during the Company's business acquisitions activities, consisted of the following at December 31, 2012 and 2011:

	2012	2011	Life
Employment contracts	$ -	$ 132,977	5 Years
Customer lists	-	605,242	3 Years
	-	738,219	
Less: accumulated amortization	-	(738,219)	
	$ -	$ -	

Amortization expense amounting to $-0- and $11,081 during the years ended December 31, 2012 and 2011, respectively is reflected as a component of operating expenses in the accompanying consolidated financial statements.

NOTE 6 - NOTES PAYABLE

Notes payable consist of the following at December 31, 2012 and 2011:

		2012		2011	
		Related Party	Other	Related Party	Other
Notes payable – Merger	6(a)	$	$ 100,000	$	$ 100,000
Notes payable – Shareholders	6(b)	202,612		208,913	
Note payable – Third parties	6(c)		75,000		45,000
Notes payable – Yorkville	6(d)		37,500		37,500
Other notes payable	6(e)	-	19,832		19,732
		$ 202,612	$ 232,332	$ 208,913	$ 202,232

(a) Notes payable - Merger:

In February 2003, the Company issued $230,000 of notes payable which matured in June 2003. The notes earn interest at 8% per annum unless they are in default, in which case they earn default interest at a rate of 15%; the notes are currently in default. Additionally, the notes had warrants attached to purchase 11,500 shares of common stock at $15.00 per share and were exercisable through February 12, 2005. None of these warrants were exercised prior to their expiration. This instrument is in default. During the 4 th quarter of 2010, one of these notes with an outstanding balance of $75,000 was sold to a third party by the original investor. The terms of the note were changed such that the note became a convertible debenture. See the $75,000 Collins financing in Note 9(d). During 2011, two additional merger notes aggregating $55,000 were sold to third parties by the original investors and simultaneously converted to convertible debentures. See the $25,000 Tangiers financing in Note 9(k) and the $65,000 Panache financing in Note 9(n).

NOTE 6 - NOTES PAYABLE (continued)
(b) Notes payable - Shareholders:

During September through December 2005, the Company entered into short-term debt obligations totaling $257,000. These notes bore interest at rates ranging from 5 to 10% per annum and were due between ninety and one hundred twenty days. All of the lenders were shareholders of the Company. During the 4 th quarter of 2010, the remaining $40,000 of these notes was sold to a third party by the original investor. That third party subsequently converted those notes along with the accrued interest of $7,509 into 15,560,455 shares of common stock of the Company.

Additionally, during 2011 and 2010, the Company entered into various unsecured notes with shareholders aggregating $5,000 and $45,000, respectively. The notes bear interest at 18% and matured at various dates through June 2011. Repayments of $14,699 and $106,218 ($60,000 in stock) were made during 2011 and 2010, respectively. During 2011, $74,200 of these notes were sold to third parties and simultaneously re-stated as convertible debentures. See Note 9(e) and 9(j).

(c) Notes payable – Yorkville:

During August 2008, the Company entered into 2 short-term notes with Yorkville that bear interest at 18% and matured in December 2008. This transaction was recorded as an inducement expense of $3,750 during the year ended December 31, 2008. These instruments are in default.

(d) Other notes payable

Other notes payable consist of two notes to third parties. The note bear interest at rates ranging from 0.8% to 21% and matured through December 31, 2011. Both of these notes are in default.

NOTE 7 – LINES OF CREDIT

The Company has numerous unsecured lines of credit with various financial institutions bearing annual interest at rates ranging from 4.75% to 36.00%. At December 31, 2012 and 2011 the company had aggregate outstanding balances on these lines of $121,369 and $125,456, respectively. These lines of credit have no collateral and are payable monthly.

NOTE 8 - LONG-TERM DEBT

On April 17, 2002, the Company borrowed $989,100 under a note agreement with the Small Business Administration. The note bears interest at 4% and is secured by the equipment and machinery assets of the Company. The balance outstanding at December 31, 2012 and 2011 was $980,450 and $980,450, respectively. The note calls for monthly installments of principal and interest of $4,813 beginning September 17, 2002 and continuing until April 17, 2032. The Company and the Small Business Administration reached an agreement in November 2010 whereby the Small Business Administration would accept $500 per month for 12 months with payment reverting back to $4,813 in November 2011. The Company only made four payments under the modification agreement. The Company continues to carry the loan as a current term liability because current payments are not being made, resulting in a default. Contractual maturities of long term debt are as follows:

For the year ending December 31,	Small business administration loan	Convertible debt (1)	Combined
2012	$ 980,450	$ 2,206,247	$ 3,186,697

2013		-		149,107	149,107
	$	980,450	$	2,355,354	$ 3,335,804

(1) Carried at face value, net of discount. See Note 9.

NOTE 9 - CONVERTIBLE DEBT

The following table illustrates the carrying value of convertible debt at December 31, 2012 and 2011:

Financing	Note	2012	2011
$2,825,000 Yorkville financing	9(a)	$ 471,543	$478,258
$ 600,000 Yorkville financing	9(b)	600,000	600,000
$ 300,000 Yorkville financing	9(c)	300,000	300,000
$ 75,000 Collins financing	9(d)	39,170	34,679
$ 17,500 Asher financing	9(w)	3,547	-
$ 20,000 Asher financing	9(x)	18,775	-
$ 27,500 Asher financing	9(e)	18,900	19,951
$ 10,750 Barclay financing	9(f)	10,750	10,750
$ 9,750 Mackie financing	9(g)	3,059	8,524
$ 170,562 Ratzker financing	9(h)	152,007	79,319
$ 67,042 Harvey financing	9(i)	67,042	62,675
$ 89,383 Cariou financing	9(j)	54,838	83,077
$ 10,000 Tangiers financing	9(l)	-	7,895
$ 15,000 Tangiers financing	9(m)	-	10,764
$ 65,000 Panache financing	9(n)	41,860	29,602
$ 15,000 Panache financing	9(o)	15,000	5,612
$ 567,200 Westmount financing	9(p)	537,318	537,318
$ 170,561 Redwood financing	9(q)	89,377	69,788
$ 21,962 Premier financing	9(r)	21,962	17,142
$ 21,000 Tangiers financing	9(s)	11,424	-
$ 5,474 Tangiers financing	9(t)	2,500	-
$ 10,000 Magna financing	9(u)	10,000	-
$ 54,060 Ridge Point financing	9(v)	9,117	-
		2,480,635	2,355,354
		(73,796)	
Less: Current portion of convertible debt		(2,258,830)	(2,206,247)
Long-term portion of convertible debt		$221,805	$149,107

(a) $2,825,000 Convertible debenture financing:

The Company is party to a convertible debenture with Yorkville which provided for the sale of its 14% secured convertible debentures in the original aggregate principal amount of $2,825,000, net of deferred financing costs of $263,143. The note was originally executed in three tranches as follows: Tranche 1 for $1,250,000 on July 21, 2006, Tranche 2 for $575,000 on August 21, 2006 and Tranche 3 for $1,000,000 on December 7, 2006.

The Debenture matures on the third anniversary of the date of issuance (see Note 8 for debt maturity schedule). The holder of the Debenture may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at the lesser of $6.00 or 85% of the 30-day VWAP. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

Under the Purchase Agreement, the Company also issued to Yorkville five-year warrants to purchase 3,333 and 5,000 shares of Common Stock at prices equal to $150 and $300, respectively, together with three-year warrants to purchase 7,667, 6,667 and 8,333 shares of Common Stock at prices equal to $75, $195 and $225, respectively. All of these warrants have expired unexercised.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 10% redemption premium plus accrued interest provided that the closing bid price of the Common Stock is less than the

NOTE 9 - CONVERTIBLE DEBT (Continued)

Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the earlier of: (i) the first trading day following the day which the Registration Statement is declared effective by the Commission, or (ii) December 1, 2006, and continuing on the first trading day of each calendar month thereafter, Yorkville may require the Company to redeem up to $500,000 of the remaining principal amount of the Debentures per calendar month. However, Yorkville may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested redemptions by either paying cash and a 10% redemption premium plus accrued interest or issuing the number of shares of the Company's common stock equal to the cash amount owed divided by a stock price equal to 95% of the 30 day VWAP (lowest daily volume weighted average price of the Company's common stock during the thirty (30) trading days immediately preceding the date of the redemption). The following redemptions have occurred in conjunction with this debenture financing:

Date of Redemption	Principal Redeemed		Number of shares issued
2006	$	25,000	629
2007	$	930,000	59,946
2008	$	280,051	925,794
2009	$	30,000	573,220
2010	$	137,300	20,360,857
2011	$	50,170	55,536,746

In the Company's evaluation of this instrument in accordance with FASB ASC 815, Derivatives and Hedging (pre-codification FAS 133 "Accounting for Derivative Financial Instruments and Hedging Activities"), based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: Effective Term (using the remaining term of the host instrument); Effective Volatility (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $1,798,350 at inception. The Company also determined that the warrants did not meet the conditions for equity classification because share settlement and maintenance of an effective registration statement are not within its control. The fair value allocated to the warrants instruments was $637,700 at inception. The remaining $388,950 was allocated to the carrying value of the debenture.

On December 31, 2010, Yorkville assigned 46.3% of Tranche 1 (aggregating $341,123 principal and $227,140 interest) to an unrelated third party ("Ratzker"). See discussion below in Note 9(h). On January 12, 2011, Yorkville assigned 100% of Tranche 2 (aggregating $567,200 in principal and $317,510 in interest) to an unrelated third party ("Westmount"). See discussion below in Note 9(p).

The remaining portions of Tranche 1 ($395,628 principal) and Tranche 3 ($82,630 principal) remain with Yorkville and are currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(b) $600,000 Convertible debenture financing:

The Company is party to a convertible debenture with Yorkville which provided for the sale of its 14% secured convertible debentures in the aggregate principal amount of $600,000, net of deferred financing costs of $75,000. The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at the lesser of $6.00 or 85% of the 30-day VWAP. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

NOTE 9 - CONVERTIBLE DEBT (Continued)
The Company had the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 12% redemption premium plus accrued interest provided that the closing bid price of the Common Stock is less than the Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the issuance date, Yorkville may require the Company to convert any amounts owed. However, Yorkville may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested conversions by either paying cash and a 12% redemption premium plus accrued interest or issuing the number of shares of the Company's common stock equal to the cash amount owed divided by a stock price equal to 85% of the 30 day VWAP.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: Effective Term (using the remaining term of the host instrument); Effective Volatility (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $706,800 at inception.

This convertible debenture matured in 2009 and is currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(c) $300,000 Convertible debenture financing:

On March 19, 2008, the Company consummated a Securities Purchase Agreement dated March 19, 2008 with Y.A. Global Investments ("Yorkville") for the sale by the Company to Yorkville of its 14% secured convertible debentures in the aggregate principal amount of $300,000, net of deferred financing costs of $60,000 which was advanced immediately in March 2008.

The holder of the Debentures may, at any time, convert amounts outstanding under the Debentures into shares of common stock of the Company at a fixed conversion price per share equal to $6.00. The Company's obligations under the Purchase Agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc. Under the Purchase Agreement, the Company also issued to Yorkville five-year warrants to purchase 33,333 shares of Common Stock at a price equal to $6.

The Company has the right to redeem a portion or all amounts outstanding under the Debenture prior to the Maturity Date at a 14% redemption premium plus accrued interest provided that the closing bid price of the Common Stock is less than the Conversion Price and there is an effective Registration Statement covering the shares of Common Stock issuable upon conversion of the Debentures and exercise of the Warrants (as defined below). In addition, beginning on the issuance date, Yorkville may require the Company to convert any amounts owed. However, Yorkville may not require the Company to redeem the Debentures if the closing bid price of the Common Stock exceeds the Conversion

Price for each of the five consecutive trading days immediately prior to the redemption date, and the Registration Statement has been declared effective and remains effective on the redemption date. The Company has the option, in its sole discretion, to settle any requested conversions by either paying cash and a 14% redemption premium plus accrued interest or issuing the number of shares of the Company's common stock equal to the cash amount owed divided by a stock price equal to 85% of the 30 day VWAP.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value F-19

NOTE 9 - CONVERTIBLE DEBT (Continued)
determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: Effective Term (using the remaining term of the host instrument); Effective Volatility (89.08% - 123.72%); and Effective Risk Adjusted Yield (15.97% - 33.59%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $150,000 at inception. The Company also determined that the warrants did not meet the conditions for equity classification because share settlement and maintenance of an effective registration statement are not within its control. The fair value allocated to the warrants instruments was $50,000 at inception. The remaining $100,000 was allocated to the carrying value of the debenture.

This convertible debenture matured in 2010 and is currently in default. Management is working with Yorkville to develop a plan for repayment of this debt. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(d) $75,000 Collins financing:

On December 9, 2010, the Company amended a note payable that has been outstanding from February 11, 2003. The amended terms of the note call for a variable conversion price of 70% of the market price. The market price is defined as the average of the lowest three trading prices for the common stock during the 10 trading day period prior to the date the conversion notice is sent by the holder. The Debenture matured on June 27, 2003 and remains in default.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion feature was bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instrument using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were:

Effective Term (using the estimated remaining term of the host instrument); Effective Volatility (141.39%); and Effective Risk Adjusted Yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $61,039 at inception. The remaining $13,961 was allocated to the carrying value of the debenture. As of December 31, 2010, this note carried a discount of $53,341 which is being amortized using the effective interest method over the estimated life of 10 months.

During December 2010, the original holder of the note sold it to a third party investor ("Collins") with all of the terms remaining the same. Collins subsequently made the following conversions:

Date of Redemption	Principal Redeemed		Number of shares issued
2010	$	9,300	3,100,000
2011	$	20,290	21,500,000

(e) $27,500 Asher financing:

On February 1, 2011, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $27,500, net of deferred financing costs of $2,500.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 51% of the market price, which is defined as the lowest 3 trading prices for the Company's common stock during the 10 trading days prior to conversion.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the

NOTE 9 - CONVERTIBLE DEBT (Continued)
Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (145.01% - 130.17%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $36,729 at inception. Derivative expense of $9,229 was recognized at inception.

This convertible debenture matured in November 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

On August 9, 2012, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $17,500, net of deferred financing costs of $2,500.

The debenture matures on May 13, 2013, nine months from the date of issuance. The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the market price, which is defined as the average of the lowest 3 trading prices for the Company's common stock during the 30 trading days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (222.71% - 212.43%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $15,452 at inception. There was no derivative expense recognized at inception.

On August 9, 2012, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $17,500, net of deferred financing costs of $2,500.

The debenture matures on May 13, 2013, nine months from the date of issuance. The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the market price, which is defined as the average of the lowest 3 trading prices for the Company's common stock during the 30 trading days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (222.71% - 212.43%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $15,452 at inception. There was no derivative expense recognized at inception.

On August 2, 2012, Cariou sold $20,000 of his convertible note to Asher. In connection with the sale, the Company restated the interest rate on the note from 15% to 10% and changed the conversion rate from the 5 day average closing price using the 5 trading days prior to conversion to 40% of the Market Price (defined as the average of the (1) lowest trading price for common stock during the 30 day trading period ending one trading day prior to the date of conversion). Additionally, the beneficial ownership limit was increased from 4.99% to 9.99%.

NOTE 9 - CONVERTIBLE DEBT (Continued)
During the three month period ending December 31, 2012, Asher converted $9,100 of the convertible debenture into 39,912,671 shares of the Company's common stock.

(f) $10,750 Barclay financing:

On January 28, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $10,750, net of deferred financing costs of $2,500.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the fair market value, but not to exceed $0.05/share or be less than $0.0001/share. Fair market value is defined as the lower of i) the closing bid price for the date immediately preceding the date of conversion (excluding trades that are not arms-length) or ii) the average of last 5 trading days volume weighted average price. The Company's obligations under the convertible promissory note are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $12,369 at inception. Derivative expense of $1,619 was recognized at inception.

This convertible debenture matured July 28, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2012, there have been no conversions on this convertible debenture.

(g)$9,750 Mackie financing:

On February 3, 2011, the Company consummated an unsecured convertible promissory note with an unrelated third party for $9,750.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 85% of the 5 day average closing price using the 5 trading days prior to the conversion date.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions

NOTE 9 - CONVERTIBLE DEBT (Continued)
underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (155.39% - 117.57%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $3,491 at inception. The remaining balance of $6,259 was allocated to the carrying value of the debenture.

This convertible debenture matured February 18, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

(h) $ 170,562 Ratzker financing:

Yorkville Advisors transferred a 46.3% portion of Tranche 1 of the $2,825,000 debenture to a third party ("Ratzker") effective December 31, 2010. The assignment aggregated $568,263, representing $341,123 of unpaid principal and $227,140 of accrued interest. At that time, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. On March 18, 2011, Ratzker modified the terms of the debenture such that the interest rate was lowered from 14% to 5% and the maturity date was extended until March 18, 2013. Simultaneously, the conversion rate on the debenture was modified from 85% of the 30 day Volume Weighted Average Price ("VWAP") to 65% of the 30 day VWAP.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting or an extinguishment of debt. As such, it was accounted for as a modification and no gain or loss was recognized on the transaction. A debt discount of $236,779 was recognized for the difference in the fair value of the embedded conversion feature before and after the modification date. A new effective rate was calculated for the new debenture and the related debt discount is being amortized using the effective interest rate over the new 2 year term of the underlying loan. Amortization for the year ended December 31, 2011 was $32,864. On March 21, 2011, Ratzker transferred 50% of his ownership interest in this debenture to another unrelated party ("Redwood"). The terms of the debenture did not change with that transfer. As such, this transfer was also considered an assignment between debt holders and did not have an accounting impact on the Company. See discussion below in Note 9(q) for Redwood financing.

With the extension of the maturity date, this debenture is no longer in default and has been reclassified to long-term liabilities on the accompanying balance sheet.

As of December 31, 2012, $3,900 of principal was converted into 300,000 shares of the Company's common stock. The company recognized a loss of $2,531.

(i) $67,042 Harvey financing:

On April 2, 2011, the Company entered into an unsecured convertible promissory note with a vendor. The vendor converted $67,042 of outstanding payables into this convertible note. The note calls for interest at 10% through the maturity date of May 2, 2011 and default interest at 15% thereafter.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $30,011 at inception.

NOTE 9 - CONVERTIBLE DEBT (Continued)
This convertible debenture matured May 2, 2011 and is currently in default. In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

As of December 31, 2012, there have been no conversions on this convertible debenture.

(j) $89,383 Cariou financing:

On April 4, 2011, the Company entered into unsecured convertible promissory note with an employee. The employee converted $56,700 of outstanding principal on related party notes payable and $32,683 of accrued interest into this convertible note. The note calls for interest at 10% through the maturity date of May 4, 2011 and default interest at 15% thereafter.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the average closing bid price for the 5 trading days prior to, but not including, the conversion date. The number of shares of common stock to be issued upon each conversion shall be determined by dividing that portion of the principal to be converted by the conversion price then multiplying by 115%.

In the Company's original evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $44,720 at inception.

(l,m) $25,000 Tangiers financing:

In May and June 2011, an unrelated third party ("Tangiers") purchased a $25,000 note payable from one of CoroWare's note holders. The transaction was completed in 2 Tranches of $10,000 and $15,000. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of 65% of the lowest trading price during the 7 days prior to conversion. The interest rate was changed from 8% to 10% and the maturity date was extended from June 2003 to March 19, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $11,662 and $10,800, respectively, at inception for the $10,000 tranche and the $15,000 tranche.

During 2011, the entire $25,000 was converted into 96,153,846 shares of CoroWare common stock. CoroWare recognized a loss of $16,923 and $13,846, respectively, on the conversion of the $10,000 tranche and the $15,000 tranche.

NOTE 9 - CONVERTIBLE DEBT (Continued)

(n) $65,000 Panache financing:

On June 2, 2011, an unrelated third party ("Panache") purchased an aggregate $65,000 (representing $30,000 of outstanding principal and $35,000 accrued interest) from one of CoroWare's note holders. The terms of the note were changed such that the conversion rate was changed from a fixed $1 per share to a variable rate of an agreed to discount to market not to fall below a 50% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion. The interest rate was changed from 8% to 15% and the maturity date was extended from June 2003 to June 1, 2012, thus taking the note out of default.

The modification was analyzed in accordance with current accounting standards and was determined not to be a troubled debt restricting but rather an extinguishment of debt as there was a substantial difference in terms on the new debt. As the old debt was being carried at face value, there was no gain or loss recognized on the extinguishment.) In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $100,880 at inception. Derivative expense of $35,880 was recognized at inception.

During 2012, Panache converted $8,980 of principal into 3,675,000 shares of the Company's common stock. The company recognized a gain of $7,536 on the transaction.

(o) $15,000 Panache financing:

On April 2, 2011, the Company entered into a $15,000 Convertible Note Agreement with an unrelated third party ("Panache"). The note calls for interest at 8% through the maturity date of June 29, 2012. The note can be renewed for an additional 10 years under 6 month extensions at $100 per extension.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to an agreed to discount to market not to fall below a 15% discount to the average of the 3 lowest trading prices during the 20 days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (132.38%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $13,500 at inception.

As of December 31, 2012, there have been no conversions on this convertible debenture.

NOTE 9 - CONVERTIBLE DEBT (Continued)
(p) $567,200 Westmount financing:

On January 12, 2011, Yorkville assigned 100% of Tranche 2 of its $2,825,000 debenture (aggregating $567,200 in principal and $317,510 in interest) to an unrelated third party ("Westmount"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 14%. This note matured August 22, 2009 and is currently in default.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to the lower of $0.02 per share or 85% of the lowest volume weighted average price in the 30 days prior to the conversion date. The Company's obligations under the purchase agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

In order to estimate a value for the embedded conversion feature for financial statement presentation at December 31, 2011, management needed to make certain assumptions about the estimated maturity date of this debt. It was estimated that this debt would not be called prior to November 1, 2012.

During 2012, there were no conversions on this note.

(q) $170,561 Redwood financing:

On March 21, 2011, Ratzker (see Note 9(h)) transferred 50% of his ownership interest in his convertible debenture to another unrelated party ("Redwood"). The terms of the note did not change. As such, there was no accounting impact for CoroWare as it was merely an assignment between debt holders. The note calls for interest at 5% through the maturity date of March 18, 2013.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 65% of the volume weighted average price for the Company's stock for the 30 trading days prior to conversion. The Company's obligations under the purchase agreement are secured by substantially all of the assets of the Company and those of its wholly owned subsidiary, CoroWare Technologies, Inc.

During 2012, $4,485 was converted into 6,208.390 shares of the Company's common stock. The company realized a loss of $19,547.

(r) $21,962 Premier financing:

On October 5, 2011, the Company entered into a $21,962 Convertible Note Agreement with an unrelated third party ("Premier"). The note calls for interest at 10% through the maturity date of March 5, 2012.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal the average closing bid prices for the Company's common stock for the 5 trading days prior to but not including the date of conversion. In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (288.54%); and effective risk adjusted yield (6.25%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $10,844 at inception. As of December 31, 2012, there have been no conversions on this convertible debenture.

NOTE 9 - CONVERTIBLE DEBT (Continued)

(s) $21,000 Tangiers financing:

On March 8, 2012, the Company entered into a $21,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 7% through the maturity date of March 8, 2018.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest trading price during the 7 days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (234.41%); and effective risk adjusted yield (15%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $39,480 at inception.

During 2012, $5,245 of principal was converted into 13,221,424 shares of the Company common stock. The company recognized a gain of $1,106.

(t) $5,474 Tangiers financing:
On March 7, 2012, a third party ("Tangiers") purchased a $5,000 portion of the Cariou Convertible Note including $474 of accrued interest. The Company issued to Tangiers a new Convertible Note which calls for interest at 10% through the new maturity date of March 7, 2013. In addition, the conversion rate was changed 50% of the lowest trading price during the 7 days prior to conversion. Upon default, the interest rate increases to 20% and the conversion rate changes to 40% of the lowest trading price during the 7 days prior to conversion.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest trading price for the Company's common stock during the 7 days prior to the conversion date. Upon default, the interest rate increases to 20% and the conversion rate changes to 40% of the lowest trading price for the Company's common stock during the 7 days prior to the conversion date.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair

value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (234.41%); and effective risk adjusted yield (15%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $9,417 at inception.

$2,500 of principal was converted into 500,000 shares of the Company common stock. The Company realized a loss of $13,267.

NOTE 9 - CONVERTIBLE DEBT (Continued)

(u) $10,000 Magna financing:

On August 20, 2012, Cariou sold $10,000 of his convertible note to Magna Group, LLC ("Magna"). In connection with the sale, the maturity date was extended from May 4, 2011 to April 20, 2013, the Company restated the interest rate on the note from 15% to 12% and changed the conversion rate from the 5 day average closing price using the 5 trading days prior to conversion to 60% of the lowest trading price for common stock during the 3 trading days prior to the date of conversion. Additionally, if the stock is chilled by the DTC at any point in which this agreement is outstanding, the discount increases by an additional 8%.

There were no conversions on this instrument during the year ending December 31, 2012.

(v) $54,060 Ridge Point financing:

On August 30, 2012, the Company entered into a $54,060 convertible note with LBB & Associates ("LBB"). The note bears interest at 10% and matures March 24, 2013. The note is convertible into common stock of the Company at a conversion rate equal to 65% of the average of the lowest two trading price for common stock during the 5 day trading period prior to the date of conversion. On September 21, 2012, LBB sold this note to Ridge Point Capital. During the year ending December 31, 2012, there were no conversions on this debenture.

(w) $17,500 Asher financing:

On August 9, 2012, the Company consummated an unsecured Securities Purchase Agreement with an unrelated third party for the sale by the Company of its 8% secured convertible debentures in the aggregate principal amount of $17,500, net of deferred financing costs of $2,500.

The debenture matures on May 13, 2013, nine months from the date of issuance. The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the market price, which is defined as the average of the lowest 3 trading prices for the Company's common stock during the 30 trading days prior to conversion.

In the Company's evaluation of this instrument in accordance with ASC 815 Derivatives and Hedging, based on the variable conversion price and lack of authorized shares, it was determined that the conversion feature was not afforded the exemption as a conventional convertible instrument and did not otherwise meet the conditions for equity classification. As such, the conversion and other features were compounded into one instrument, bifurcated from the debt instrument and carried as a derivative liability, at fair value. The Company estimated the fair value of the bifurcated derivative instruments using the Monte Carlo valuation model because this methodology provides for all of the necessary assumptions necessary for fair value determination; including assumptions for credit risk, interest risk and conversion/redemption behavior. Significant assumptions underlying this methodology were: effective term (using the remaining term of the host instrument); effective volatility (222.71% - 212.43%); and effective risk adjusted yield (12.5%). As a result of these estimates, the valuation model resulted in a compound derivative balance of $15,452 at inception. There was no derivative expense recognized at inception.

During 2012, there were no conversions on this debt.

(x) $20,000 Asher financing:

On August 2, 2012, Cariou sold $20,000 of his convertible note to Asher. In connection with the sale, the Company restated the interest rate on the note from 15% to 10% and changed the conversion rate from the 5 day average closing price using the 5 trading days prior to conversion to 40% of the Market Price (defined as the average of the (1) lowest trading price for common stock during the 30 day trading period ending one trading day prior to the date of conversion). Additionally, the beneficial ownership limit was increased from 4.99% to 9.99%. During 2012, there were no conversions on this debt.

NOTE 9 - CONVERTIBLE DEBT (Continued)

The following tables illustrate the fair value adjustments that were recorded related to the derivative financial instruments associated with the convertible debenture financings:

	Year ended December 31, 2012			
	Inception	Fair Value Adjustments	Redemptions	Total
$2,825,000 Yorkville financing (a)	$ -	$ (22,813,104)	$ -	$ (22,813,104)
$ 600,000 Yorkville financing	-	(6,083,319)	-	(6,095,342)
$ 300,000 Yorkville financing	-	-	-	-
$ 75,000 Collins financing	-	(1,129,788)	-	(1,129,788)
$ 17,500 Asher financing	-	(566,675)	-	(566,675)
$ 20,000 Asher financing	(62,980)	(916,619)	(971)	(980,570)
$ 27,500 Asher financing (b)	-	(598,473)	(108,311)	(706,784)
$ 10,750 Barclay financing (c)	-	(603,250)	-	(603,250)
$ 9,750 Tangiers financing (d)	-	(435,080)	(10,462)	(445,542)
$ 170,562 Ratzker financing (e)	-	(5,774,858)	-	(5,774,858)
$ 67,042 Harvey financing (f)	-	(863,195)	-	(863,195)
$ 89,383 Cariou financing (g)	-	(409,751)	-	(409,751)
$ 10,000 Tangiers financing (i)	-	-	-	-
$ 15,000 Tangiers financing (j)	-	-	-	-
$ 65,000 Panache financing (k)	-	(1,706,543)	(21,812)	(1,728,355)
$ 15,000 Panache financing (l)	-	(314,155)	-	(314,155)
$ 567,200 Westmount financing (m)	-	(24,556,548)	-	(24,556,548)
$ 170,561 Redwood financing (n)	-	(7,268,115)	(12,857)	(7,280,972)
$ 21,962 Premier financing	-	(237,535)	-	(237,535)
$ 21,000 Tangiers financing	-	(1,083,117)	-	(1,083,117)
$ 5,000 Tangiers financing	-	(154,549)	-	(154,549)
$ 10,000 Magna financing	(13,267)	(337,096)	-	(350,363)
$ 54,060 Ridge Point financing	(9,846)	(1,551,601)	-	(1,561,447)
	$ (86,093)	$ (77,415,303)	$ (154,413)	$ (77,655,809)

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NOTE 9 - CONVERTIBLE DEBT (Continued)

The following table summarizes the number of common shares indexed to the derivative financial instruments as of December 31, 2011:

Financing or other contractual arrangement:	Note	Conversion Features	Warrants	Total
$2,825,000 Yorkville financing	9(a)	9,436,474,855	-	9,436,474,855
$ 600,000 Yorkville financing	9(b)	9,465,863,014	52,500,000	9,518,363,014
$ 300,000 Yorkville financing	9(c)	76,121	33,333	109,454
$ 75,000 Collins financing	9(d)	656,005,930	-	656,005,930
$ 27,500 Asher financing	9(e)	537,552,511	-	537,552,511
$ 10,750 Barclay financing	9(f)	128,095,822	-	128,095,822
$ 9,750 Mackie financing	9(g)	84,873,548	-	84,873,548
$ 170,562 Ratzker financing	9(h)	2,910,474,184	-	2,910,474,184
$ 67,042 Harvey financing	9(i)	746,105,076	-	746,105,076
$ 89,383 Cariou financing	9(j)	999,032,264	-	999,032,264
$ 10,000 Tangiers financing	9(l)	163,287,671	-	163,287,671
$ 15,000 Tangiers financing	9(m)	243,414,120	-	243,414,120
$ 65,000 Panache financing	9(n)	1,230,695,890	-	1,230,695,890
$ 15,000 Panache financing	9(o)	183,471,394	-	183,471,394
$ 567,200 Westmount financing	9(p)	10,915,281,489	-	10,915,281,489
$ 170,561 Redwood financing	9(q)	3,882,816,312	-	3,882,816,312
$ 21,962 Premier financing	9(r)	140,496,630	-	140,496,630
Preferred Stock, Series B	12(b)	1,064,440,000		1,064,440,000
Preferred Stock, Series D	12(d)	759,013,283		759,013,283
		43,547,470,114	52,533,333	43,600,003,447

	Year ended December 31, 2011			
Derivative income (expense):	Inception	Fair Value Adjustments	Redemptions	Total
$2,825,000 Yorkville financing	$ -	$ 367,903	$ (23,917)	$ 343,986
$ 600,000 Yorkville financing	-	(219,399)	-	(219,399)
$ 300,000 Yorkville financing	-	26	-	26
$ 75,000 Collins financing	-	(2,437)	(22,742)	(25,179)
$ 27,500 Asher financing	(9,229)	3,400	(2,975)	(8,804)
$ 10,750 Barclay financing	(1,619)	4,427	-	2,808
$ 9,750 Mackie financing	-	(1,772)	-	(1,772)
$ 170,562 Ratzker financing	-	53,337	-	53,337
$ 67,042 Harvey financing	-	(8,786)	-	(8,786)
$ 89,383 Cariou financing	-	(7,229)	-	(7,229)
$ 25,000 Tangiers financing	(1,662)	22,462	-	(20,800)
$ 10,000 Tangiers financing	-	(13,064)	-	(13,064)
$ 15,000 Tangiers financing	-	(5,021)	-	(5,021)
$ 65,000 Panache financing	(35,880)	14,731	(11.352)	(32,501)
$ 15,000 Panache financing	-	657	-	657
$ 567,200 Westmount financing	-	(564,723)	(42,054)	(606,777)
$ 170,561 Redwood financing	-	(165,558)	(67,492)	(233,050)
$ 21,962 Premier financing	-	1,290	-	1,290
Preferred stock, Series B	-	154,515	-	154,515

Preferred stock, Series D		-		98,391		-		98,391
	$	(48,390)	$	(266,850)	$	(170,532)	$	(485,772)

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NOTE 9 - CONVERTIBLE DEBT (Continued)

During the year ended December 31, 2012, conversions were as follows:

Financing or other contractual arrangement:	Principal converted	Shares Issued	Gain (Loss) Recorded
$2,825,000 Yorkville convertible note financing	$ 6,715	395,000	$ 4,844
$ 65,000 Panache convertible note financing	8,980	3,675,000	7,536
$ 170,562 Ratzker convertible note financing	3,900	300,000	(2,531)
$ 10,000 Tangiers convertible note financing	10,000	500,000	2,033
$ 15,000 Tangiers convertible note financing	15,000	750,000	7,715
$ 170,561 Redwood convertible note financing	44,485	6,208,390	(19,547)
$ 5,474 Tangiers convertible note financing	2,500	500,000	(13,267)
$ 20,000 Asher convertible note financing	1,225	3,208,333	(4,140)
$ 27,500 Asher convertible note financing	3,600	8,780,488	87,320
$ 9,750 Tangiers convertible note financing	5,245	13,221,424	1,106
	$ 101,650	37,538,635	$ 71,070

Changes in the fair value of the compound derivative and, therefore, derivative income (expense) related to the compound derivative is significantly affected by changes in the Company's trading stock price and the credit risk associated with its financial instruments. The fair value of the warrant derivative is significantly affected by changes in the Company's trading stock prices.

During the years ended December 31, 2012 and 2011, the Company incurred gains/(losses) in conjunction with the applicable redemptions of the convertible debt of $71,040 and $75,517, respectively. The gain/(loss) on redemption was recorded by the Company as the difference between the fair value of the shares issued ($172,720 and $252,066 during 2012 and 2011, respectively) and the carrying value of the debt redeemed $101,650 and $327,583 for 2012 and 2011, respectively.)

NOTE 10 - INCOME TAXES

The Company follows ASC 740, "Income Taxes". Deferred income taxes reflect the net effect of (a) temporary difference between carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carry forwards. No net provision for refundable Federal income tax has been made in the accompanying statements of operations because no recoverable taxes were paid previously. Similarly, no deferred tax asset attributable to the net operating loss carry forward has been recognized, as it is not deemed likely to be realized.

The current year provision for refundable Federal income tax consists of the following at December 31, 2012 and 2011:

	2012	2011
Refundable income tax attributable to:		
Current operations	$ 384,000	$ 723,000
Less, change in valuation allowance	(384,000)	(723,000)
Net refundable amount	$ -	$ -

The cumulative tax effect at the expected rate of 34% of significant items comprising the Company's net deferred tax amount is as follows at December 31, 2011 and 2010:

		2012		2011
Deferred tax asset attributable to:				
Net operating loss carryover	$	9,754,000	$	9,370,000
Less, valuation allowance		(9,754,000)		(9,370,000)
Net deferred tax asset	$	-	$	-

At December 31, 2012, the Company had an unused net operating loss carryover approximating $ 26,500,000 that, subject to certain utilization limitations, is available to offset future taxable income, if any. The net operating losses expire from 2024 through 2031.

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NOTE 11 - STOCK BASED COMPENSATION

Employee stock options:

The Company has a 2005 Stock Option Plan which is authorized to issue 66,667 options. There are currently 34,831 options outstanding under this plan.

Compensation cost of $-0- and $20,134 was recognized during the years ended December 31, 2012 and 2011, respectively, for grants under the 2005 Stock Option Plan.

During 2012 and 2011, -0- and 364 unvested options were forfeited by employees upon termination.

No options were issued during 2012 or 2011.

Nonemployee stock options:

During 2008 there were 3,333 options granted to nonemployees to purchase shares of the Company's common stock at $3. These options expire in ten years and vested immediately.

The following table summarizes stock option activity for the years ending December 31, 2012 and 2011:

	Number	Weighted Average Exercise Price	Weighted Average Life (years)
Outstanding, January 1, 2011	38,164	$ 2.97	
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding, December 31, 2011	38,164	$ 2.97	6.47
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding, December 31, 2012	38,164	$ 2.97	5.47
Warrants exercisable at December 31, 2012	38,164	$ 2.97	5.47

Directors' compensation:

The Company has not paid and does not presently propose to pay cash compensation to any director for acting in such capacity. For 2012 and 2011 services, each director is to be compensated with 15,000 shares of the Company's restricted common stock. In addition, the chairman is to be awarded 7,500 shares. Neither director has received his shares for 2012 services. A liability has been established for $9,374 for the remaining board fees that have yet to be paid.

NOTE 11 - STOCK BASED COMPENSATION (Continued)

The directors received the following common stock issuances for their service in 2012 and 2011:

Director	Restricted Common Stock Issued in 2012 for 2011 services	Value	Restricted Common Stock Issued in 2011 for 2010 services	Value
Martin Nielson	-	$ -	-	$ -
John Kroon	-	-	-	-
Total	-	$ -	-	$ -

The following table summarizes stock based compensation for services during the years ended December 31, 2012 and 2011:

	2012		2011	
	Shares	Value	Shares	Value
Employee bonus	85,787,184	$32,194	1,000,000	$ 3,300
Professional fees	-	-	-	-
	85,787,184	$ 32,194	1,000,000	$ 3,300

NOTE 12 - OTHER STOCKHOLDERS' EQUITY

a) Preferred stock Series A:

The Company has authorized 125,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock (ii) is convertible immediately after issuance into the Company's common stock at the lesser of $.005 per share or 75% of the average closing bid prices over the 20 trading days immediately preceding the date of conversion (iii) has a liquidation preference of $1.00 per share, (iv) may be redeemed by the Company at any time up to five years after the issuance date for $1.30 per share plus accrued and unpaid dividends, (v) has no voting rights except when mandated by Delaware law.

There were no shares of Series A Preferred Shares outstanding at any time during the years ended December 31, 2012 and 2011.

b) Preferred stock Series B:

The Company has authorized 525,000 shares of Series B Preferred Stock. Each share of Series B Preferred Stock i) pays a dividend of 5%, payable at the discretion of the Company in cash or common stock, (ii) is convertible immediately after issuance into the Company's common stock at the lesser of $15 per share or 75% of the average closing bid prices over the 20 trading days immediately preceding the date of conversion (iii) has a liquidation preference of $1.00 per share, (iv) may be redeemed by the Company at any time up to five years

NOTE 12 - OTHER STOCKHOLDERS' EQUITY (Continued)

There were no conversions of Series B stock during the years ended December 31, 2012 and 2011.

Based upon the Company's evaluation of the terms and conditions of the Series B Preferred Stock, the Company concluded that their features are more akin to a debt instrument than an equity instrument, which means that the Company's accounting conclusions are generally based upon standards related to a traditional debt security. The Company's evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument due to certain variability in the conversion price, and it further did not meet the conditions for equity classification. Therefore, the Company is required to bifurcate the embedded conversion feature and carry it as a liability.

The Company estimated the fair value of the compound derivative using a common stock equivalent and the current share price of the Company's common stock. As a result of this estimate, the Company's valuation model resulted in a compound derivative balance associated with the Series B preferred stock of $70,962 and $106,443 as of December 31, 2012 and 2011, respectively. This amount is included in mandatorily redeemable preferred stock as a liability on the Company's balance sheet. Fair value adjustments of $35,481 and $106,443 were charged to derivative income (expense) for the years ended December 31, 2012 and 2011, respectively.

c) Preferred stock Series C:

The Company has authorized 500,000 shares of Series C Preferred Stock. During 2007 the Company initiated a private offering under Regulation D of the Securities Act of 1933 (the "Private Offering"), of an aggregate 500,000 units (collectively referred to as the "Units") at a price of $1,00 (one dollar) per unit, with each unit consisting of one share of Series C Convertible Preferred Stock at the lesser of eighty five Percent (85%) of the average closing bid price of the Common Stock over the twenty (20) trading days immediately preceding the date of conversion or $0.04 and stock purchase warrants equal to the number of shares of common stock converted from the Series C Convertible Preferred Stock, exercisable at $0.06 per share and which expire five (5) years from the conversion date.

d) Preferred stock Series D:

On November 10, 2011 the Board approved by unanimous written consent an amendment to the Corporation's Certificate of Incorporation to designate the rights and preferences of Series D Preferred Stock. There are 500,000 shares of Series D Preferred Stock authorized with a par value of $0.001. Each share of Series D Preferred Stock has a stated value equal to $1.00. These preferred shares rank higher than all other securities. Each outstanding share of Series D Preferred Stock shall be convertible into the number of shares of the Corporation's common stock determined by dividing the Stated Value by the Conversion Price which is defined as eighty five percent (85%) of the average closing bid price of the Common Stock over the twenty (20) trading days immediately preceding the date of conversion, (ii) but no less than Par Value of the Common Stock. Mandatory conversion can be demanded by the Company prior to October 1, 2013. Each one share of the Series D Preferred Stock shall have voting rights equal to 100,000 votes of Common Stock.

There were no conversions of Series D stock during the years ended December 31, 2012.

Based upon the Company's evaluation of the terms and conditions of the Series D Preferred Stock, the Company concluded that their features are more akin to a debt instrument than an equity instrument, which means that the Company's accounting conclusions are generally based upon standards related to a traditional debt security. The Company's evaluation concluded that the embedded conversion feature was not afforded the exemption as a conventional convertible instrument due to certain variability in the conversion price, and it further did not meet the conditions for equity classification. Therefore, the Company is required to bifurcate the embedded conversion feature and carry it as a liability.

The Company estimated the fair value of the compound derivative using a common stock equivalent and the current share price of the Company's common stock. As a result of this estimate, the Company's valuation model resulted in a compound derivative balance associated with the Series D preferred stock of $75,901as of December 31, 2011. This amount is included in mandatorily redeemable preferred stock as a liability on the Company's balance sheet. Fair value adjustments of $98,391 were charged to derivative income (expense) for the year ended December 31, 2011.

NOTE 12 - OTHER STOCKHOLDERS' EQUITY (Continued)

e) Preferred stock Series E:

On March 9, 2012, the Corporation filed the Certificate of Designation of the Rights and Preferences of Series E Convertible Preferred Stock of CoroWare, Inc. with the Delaware Secretary of the State pursuant to which the Corporation set forth the designation, powers, rights, privileges, preferences and restrictions of 1,000,000 authorized shares of Series E Convertible Preferred Stock, par value $.001 per share.

Issuance of Preferred Stock, Series E:

In April 2012, the Company entered into a subscription agreement to sell 10,000 shares of Preferred stock, Series E for proceeds of $10,000. In November 2012, the Company entered into a subscription agreement to sell 40,000 shares of Preferred stock, Series E for proceeds of $40,000.

There were no conversions of Series E stock during the years ended December 31, 2012.

f) Outstanding warrants:

At December 31, 2012, the Company had the following warrants outstanding:

		Grant Date	Expiration Date	Warrants Granted	Exercise Price
$ 300,000 financing	9(b)	03/19/08	3/19/13	33,333	$ 1,200
				33,333	

The following table summarizes warrant activity for the years ending December 31, 2012 and 2011:

	Number	Weighted Average Exercise Price	Weighted Average Life (years)
Outstanding, January 1, 2011	209	$ 1,200	
Granted	-		
Forfeited	(42)		
Exercised	-		
Outstanding, December 31, 2011	167	$ 1,200	1.25
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding, December 31, 2012	167	$ 1,200	.25
Warrants exercisable at December 31, 2012	167	$ 1,200	.25

g) Reverse split:

On July 6, 2012, the Company effected a one-for-two hundred (1:200) reverse split of the Company's Common Stock. All common share amounts within this document have been adjusted to reflect this change.

NOTE 13 – INVESTMENT IN JOINT VENTURE

On September 27, 2012, the Company partnered with a private investor to launch a joint venture – Aricon,LLC to develop and market mobile robot platforms, applications, and solutions for the construction industry.

The joint venture is currently comprised of CoroWare (51% ownership), who agreed to contribute 38,000,000 shares of restricted CoroWare common stock, (1) mobile robot for prototype development, $10,000 cash, and mobile robotics development expertise; and Lucas Snyder (49% ownership), a private investor who agreed to contribute $50,000 cash, construction industry expertise, and customer relationships.

Through its combined expertise in construction and robotics, ARiCON intends to address the growing need for Computer Aided Production (CAP) solutions, with its initial focus on the development of robotic layout systems.

NOTE 13 - COMMITMENTS

Lease Agreements:

As of May 30, 2010 and July 31, 2010, the Company ended its lease agreements with PS Business Park for the properties at 4074 148 th Avenue NE and 4056 Avenue NE in Redmond, Washington. In July 2010, The Company entered into a five year term lease from August 1, 2010 to July 31, 2015.

Future minimum rentals on non-cancelable leases are as follows:

For the year ending December 31,		
2013	$	52,041
2014		55,029
2015		33,117
2016		-
	$	189,240

Employment Agreements:

On May 16, 2006, Mr. Spencer entered into an employment agreement and was granted 1,667 options to purchase restricted shares of CoroWare, Inc. common stock at a purchase price of $54, expiring in ten years, and vesting ratably over three years. Our board of directors voted to re-price these options to $12 at September 12, 2007 and again to $3 at December 31, 2007. On February 4, 2008 these options were converted into 1,667 share of the Company’s common stock as per a directive from the Board of Directors. On September 12, 2007, Mr. Spencer was granted 5,000 options to purchase restricted shares of our common stock at $12. On December 31, 2007 the options were re-priced to $3. As of December 31, 2012, all 5,000 of these options are vested.

Mr. Hyams entered into an employment agreement and was granted 1,667 options to purchase restricted shares of CoroWare, Inc. common stock at a purchase price of $54, expiring in ten years, and vesting ratably over three years. The Board of Directors voted to re-price these options to $12 at September 12, 2007 and again to $3 at December 31, 2007. On February 4, 2008 these options were converted into 1,667 share of our common stock as per a directive from our board of directors. On September 12, 2007 Mr. Hyams was granted 5,000 options to purchase restricted shares of our common stock at $12 per share. On December 31, 2007 the options were re-priced $3. At December 31, 2012, all 5,000 of those options are vested.

NOTE 13 – COMMITMENTS (Continued)

Mr. Mandrell was employed as Director and then Vice President of CoroWare, Inc. from January 29, 2007, until his resignation November 12, 2010. Mr. Mandrell entered into an employment agreement and was granted 1,667 options to purchase restricted shares of our common stock at a purchase price of $51, expiring in ten years, and vesting ratably over three years. Our board of directors voted to re-price these options to $12 at September 12, 2007 and again to $3 at December 31, 2007. At December 31, 2011, all of these options are vested. On September 12, 2007 Mr. Mandrell was granted 2,000 options to purchase restricted shares of our common stock at $12 per share. On December 31, 2007 the options were re-priced to $3. At March 31, 2010, all 2,000 of those options are vested.

Walter K. Weisel was employed as our CEO from August 25, 2004, until his resignation August 21, 2007 and from all other positions in December 2007. On April 12, 2005, Mr. Weisel was granted 5,000 options to purchase restricted shares of our common stock at an exercise price of $30, expiring in ten years and vesting ratably over three years. Upon his termination on December 13, 2007, 3,333 of the 5,000 options had vested and remain exercisable until their termination date.

In February 2008, Mr. Gartlan was granted 10,040 shares of restricted common stock in exchange for 10,040 common stock options that were outstanding. Subsequent to his passing, the Company granted fully vested, ten-year options to Mr. Gartlan's surviving spouse to buy up to 3,333 restricted shares of our common stock at $3 per share.

NOTE 14- SUBSEQUENT EVENTS

Increase in Authorized Shares
On, February 22, 2013, the majority stockholders of the Company authorized an increase in the number of authorized shares of common stock from three billion (3,000,000,000) shares of common stock to thirteen billion (13,000,000,000) shares of common stock. This increase was effective April 15, 2013.

Recent financings:

(a) $22,500 Asher financing:

On January 15, 2013, the Company entered into a $22,500 Convertible Note Agreement with an unrelated third party ("Asher"). The note calls for interest at 8% through the maturity date of September 27, 2013.

The holder of the debenture may, at any time 180 days after the date of the note, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest average 3 closing bids in the 30 days prior to the conversion date.

(b) $42,000 AGS financing:

On February 26, 2013, the Company entered into a $42,000 Convertible Note Agreement with an unrelated third party ("AGS). The note calls for interest at 14% through the maturity date of February 25, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 35% of the lowest closing bid in the 20 days prior to the conversion date.

(c) $131,377.39 AGS financing

On February 24, 2013, David Ratzker sold $131,377.39 of his convertible debenture to an unrelated third party (“AGS.”). The Company entered into a $131,377.39 Convertible Note Agreement with AGS. The note calls for interest at 14% through the maturity date of February 25, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 35% of the lowest closing bid in the 20 days prior to the conversion date.

(d) $25,000 Yorkville financing:

On March 7, 2013, the Company entered into a $25,000 Convertible Note Agreement with an unrelated third party ("Yorkville"). The note calls for interest at 14% interest through the maturity date of March 7, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock fo the Company at a conversion rate equal to 80% of the lowest daily volume weighted average price during the 30 days prior to the conversion date.

(e) $12,372.60 Tangiers financing:

On March 11, 2013, Raphael Cariou sold $12,372.60 of his promissory note to an unrelated third party ("Tangiers"). The Company entered into a $12,372.60 Convertible Note Agreement with Tangiers. The note calls for interest at 10% through the maturity date of March 11, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest closing bid in the 10 days prior to the conversion date.

Stock Issuances:

The Company issued the following shares subsequent to December 31, 2012:

Shares issued for employee compensation	51,248,169
Shares issued in connection with redemptions on Preferred Stock, Series E	75,360,000
Shares issued in connection with redemptions on convertible debentures	2,076,229,839
Total	2,202,838,008

Subsequent events since March 31, 2013

Recent financings:

(a) $14,000 Tangiers financing:

On April 19, 2013, the Company entered into a $14,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of April 19, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest closing bid in the 10 days prior to the conversion date.

(b) $24,893.17 Tangiers financing:

On May 1, 2013, Raphael Cariou sold a $24,893.17 of his convertible debenture to an unrelated third party ("Tangiers"). The Company entered into a $24,893.17 Convertible Note Agreement with Tangiers. The note calls for interest at 10% through the maturity date of May 1, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest closing bid in the 10 days prior to the conversion date.

(c) $20,000 Tangiers financing:

On May 17, 2013, the Company entered into a $20,000 Convertible Note Agreement with an unrelated third party ("Tangiers"). The note calls for interest at 10% through the maturity date of May 17, 2014.

The holder of the debenture may, at any time, convert amounts outstanding under the debenture into shares of common stock of the Company at a conversion rate equal to 50% of the lowest closing bid in the 10 days prior to the conversion date.

Stock Issuances:

The Company issued the following shares subsequent to March 31, 2013:

Shares issued in connection with redemptions on convertible debentures	1,153,987,068
Total	1,153,987,068

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